

**IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF KANSAS**

EVOLUTION, INC.,

Plaintiff,

v.

Case No. 01-2409-CM-DJW

**THE SUNTRUST BANK, as
Successor-in-Interest to
SUNTRUST SERVICE CORPORATION,
and
PREMIUM ASSIGNMENT
CORPORATION,**

Defendants.

MEMORANDUM AND ORDER

Plaintiff Evolution, Inc., a software developer, brings this action against Defendants SunTrust Bank, as successor-in-interest to SunTrust Services Corporation, and Premium Assignment Corporation (“PAC”) asserting claims for copyright infringement, breach of contract, and misappropriation of trade secrets arising from PAC’s licensing of Plaintiff’s premium finance software, source code, and related products.¹ Defendants have counterclaimed on theories of breach of contract, negligent misrepresentation, and fraud. This matter comes before the Court on Plaintiff’s Motion for an Order Compelling Discovery (doc. 89) and the parties’ respective objections to the recommendations of the Special Master, appointed to assist the Court in resolving the discovery disputes set out in Plaintiff’s Motion for an Order Compelling Discovery.

¹On May 12, 2004, the Court granted in part and denied in part Defendants’ Motion for Summary Judgment.

I. Background of Discovery Dispute

In January 2002, Plaintiff served its initial requests for production of documents. The initial requests sought the production of, *inter alia*, Plaintiff's software at issue in this case, Defendants' utilization of Plaintiff's software, and Defendants' creation of an allegedly infringing product. Defendants responded to these requests on March 8, 2002 by producing 10,963 Bates-labeled pages and 23 diskettes and CD ROMs of information.

On October 24, 2002, Plaintiff served its Second Request for Production of Documents and Things upon Defendants.² Many of the requests propounded were duplicative of the categories in the initial requests. In the second requests, Plaintiff asked Defendants to produce object code and source code for all versions of the allegedly infringing software products created by Defendants. Plaintiff also requested that Defendants produce the source safe database or source safe history reports for numerous projects at issue.

Plaintiff's instructions for production of source code directed that Defendants place "any and all source code needed to successfully load, run, and compile in the development environments." The instructions also required that Defendants "document the names of any development tools or development environments, their purpose or intent and the version numbers of each used, including any necessary (but not limited to) add-ins, run-time or development-time libraries, licensing (.LIC) files, .OCX files, .DLL files, .DDF files, or any other third-party controls needed to successfully load, run, and compile the source code in its intended development environment, regardless of whether the tool is provided on the medium."

²See doc. 71.

With respect to object code, Plaintiff's instructions directed that Defendants produce everything necessary to successfully run in the operating system for which it was intended, with instructions or documentation on how to launch and operate the object code (including but not limited to any passwords needed) against the database the object code was intended to work with (including but not limited to any installations programs for object code, OCX.s, DLL.s, database directory paths, shortcut or icon properties to object code, etc.). The instructions also requested that Defendants list and describe the function of everything that is required (but is not provided) to successfully load, run, and compile the source code in a development environment.

Defendants served their responses to Plaintiff's Second Requests for Production of Documents and Things on April 17, 2003. In their responses, Defendants objected to the requests on the grounds that they are overly broad and unduly burdensome to the extent that they seek production of documents and things already produced to Plaintiff.

On May 15 and 22, 2003, Defendants supplemented their productions responsive to both Plaintiff's initial and second requests.

After a series of letters between counsel attempting to clarify and resolve Plaintiff's identified issues with Defendants' responses to its Second Request for Production of Documents and Things, Plaintiff filed a Motion for an Order Compelling Discovery on May 27, 2003. On June 6, 2003, Defendants produced a number of diskettes, CD ROMs, and a tape that they claim they previously produced in March 2002.

The discovery dispute, initially set forth in Plaintiff's Motion for an Order Compelling Discovery and later refined to its current status, centers around Plaintiff's claim that Defendants failed to produce usable source code, object code and application databases for many of the core programs at issue in this

case and failed to produce the source safe database or source safe history reports for numerous projects at issue in this case. With respect to the code produced by Defendants, Plaintiff alleges that Defendants produced such code in a manner that made it unusable and many of the files produced by Defendants were blanked out or contained nulls that made them unreadable.

Defendants claim that they have produced approximately 12,000 pages of documents responsive to Plaintiff's various discovery requests, including every version of Plaintiff's product sent to Defendants and all versions of the allegedly infringing products created by Defendants. They argue that they have produced all the information requested and they should not be required to provide Plaintiff with assistance with its specific technical difficulties in attempting to access the source and object code they have produced. They maintain that if Plaintiff needs assistance in accessing the source and object code and other files they have produced, then it should retain an expert, not ask the Court to order them to provide this assistance.

After several attempts to resolve the disputes between the parties, the Court, on December 21, 2003, entered an Order authorizing the appointment of a Special Master to inquire into the parties' ongoing dispute and to assist the Court in resolving the technical discovery issues relating to the motion to compel. On January 23, 2004, the Court appointed D.A.N. Chase as Special Master and on February 11, 2004, issued an Order defining the nature of his authority in the case. On May 26, 2004, the Court issued another Order further defining the Special Master's specific duties, including directing him to travel to Defendants' place of business with a laptop and removable hard drives to obtain the source code, executables, and databases requested by Plaintiff.

On August 3, 2004, the Special Master filed his Report and Recommendations (doc. 215)³ relating to the technical discovery disputes set out in Plaintiff's Motion for An Order Compelling Discovery. In his Report, the Special Master indicated that his duties were substantially completed, with the exception of two outstanding items. The Court held a status conference on September 2, 2004, wherein the parties were directed to have their respective technical staff work toward resolving the outstanding technical issues identified in the Special Master's Report. At that conference, the Court also directed Plaintiff to file its response to the Special Master's Report, directed the Special Master to file an amended report, and allowed the parties an opportunity to file their objections to the Special Master's Amended Report. The Court specifically instructed the Special Master to include in his amended report his views on the progress made since his last Report, an updated listing of his fees and expenses incurred in this case, and a revised listing of outstanding items.

On September 17, 2004, the Special Master filed his Amended Special Master's Report (doc. 221),⁴ in which he states that his duties have been substantially completed and the outstanding items have been resolved or identified and dealt with accordingly. The Court therefore determines that the Special Master has completed his duties as set forth by the Court in its February 11, 2004 Order Appointing Special Master (doc. 155) and May 26, 2004 Order (doc. 198). Accordingly, the Special Master appointed by the Court is discharged with the thanks of the Court. The Special Master is hereby dismissed and relieved of any further duty in this case.

³Attached as Exhibit 1 to this Memorandum and Order.

⁴Attached as Exhibit 2 to this Memorandum and Order.

The Court has reviewed Plaintiff's Preliminary Response to Special Master's Report (doc. 220), the Amended Special Master's Report (doc. 221), Defendants' Response to Amended Special Master's Report (doc. 223), and Plaintiff's Response to Amended Special Master's Report (doc. 224) and is now ready to rule on Plaintiff's pending Motion for an Order Compelling Discovery and the parties' objections to the Amended Special Master's Report.

II. Motion for an Order Compelling Discovery (doc. 89)

Because the Special Master was able to complete his duties with regard to the parties' technical discovery disputes, Plaintiff's Motion for an Order Compelling Discovery (doc. 89) is granted in part and denied in part. The motion is granted to the extent that the Special Master's assistance in this matter was able to resolve the parties' discovery disputes at issue in the motion. The motion is denied as to any other issues or requests for relief.

Pursuant to Federal Rule of Civil Procedure 37(a)(4)(C), when a court grants in part and denies in part a motion to compel, the court may "apportion the reasonable expenses incurred in relation to the motion among the parties and persons in a just manner."⁵ In this case, the Special Master's assistance was necessary to resolve the discovery disputes set out in Plaintiff's Motion for an Order Compelling Discovery. The Special Master found that "[h]ad defendants provided [the level of cooperation provided during the Special Master's July 13-15, 2004 site visit] over a year ago, plaintiff's motion to compel and the Court's appointment of the Special Master would have not been necessary."⁶ The Court therefore finds it

⁵Fed. R. Civ. P. 37(a)(4)(C).

⁶Amended Special Master's Report, p.10.

appropriate to apportion Defendants a larger percentage of the Special Master's fees sufficient to compensate Plaintiff for its reasonable expenses incurred in connection with the motion.

III. Special Master's Fees and Expenses

For services rendered in this case, the Special Master reports that he incurred \$52,140 in fees and \$1,880 in expenses, as detailed in his September 17, 2004 Statement of Account.⁷ Neither party has objected to the amount of fees and expenses claimed by the Special Master. Based upon a review of the Special Master's itemized listing of the fees and expenses incurred in this case, the Court determines that the Special Master's fees in the amount of \$52,140 and expenses in the amount of \$1,880 are reasonable and appropriate.

IV. Objections to Special Master's Recommended Allocation of Fees

In both his original Report and his Amended Report, the Special Master provided his recommendations as to how his fees and expenses should be apportioned between the parties. In the original Report, he recommended that his expenses be apportioned equally and his fees be apportioned so that Plaintiff paid 20% and Defendants paid 80%. The Amended Special Master's Report states that "[i]t is still the opinion of the Special Master that the circumstances which necessitated the majority of the time spent on this matter are directly attributable to defendants' representations and lack of cooperation prior to the trip to Florida and delays since returning from Florida."⁸ The Special Master continues to

⁷Exh. N to the Amended Special Master's Report (doc. 221).

⁸Amended Special Master's Report (doc. 221), p. 12.

recommend that his expenses be apportioned equally and his fees be apportioned 20% to be paid by Plaintiff and 80% to be paid by Defendants.

Defendants have filed their Responses to the Special Master's Reports (docs. 216 & 223) in which they object to many of the Special Master's conclusions and statements. In particular, they object to the Special Master's recommendation that they pay 80% of his fees. They argue that they should be responsible for no more than 50% of his fees incurred before mid-August 2004, and none of his fees since mid-August 2004. They contend that the Special Master's Report and Amended Report are fundamentally flawed and biased and are based upon a series of mistakes and misunderstandings between the parties.

Plaintiff also objects to the Special Master's recommended apportionment of his fees and expenses. Plaintiff asserts that Defendants should be assessed 100% of the Special Master's fees and expenses in this matter. In addition to requesting that the Court order Defendants to pay 100% of the Special Master's fees and expenses, Plaintiff request that the Court dismiss Defendants' counterclaims, order Defendants to pay Plaintiff's reasonable attorney fees associated with its attempts to resolve its discovery disputes, grant Plaintiff leave to conduct further discovery (if Defendants' counterclaims are not dismissed), order Defendants to pay Plaintiff's attorney fees associated with such further discovery, and give favorable consideration to Plaintiff's pending Motion for Re-Designation of Certain Restricted Confidential Files (doc. 160).

Federal Rule of Civil Procedure 53(g)(1) provides that "[i]n acting on a master's order, report, or recommendations, the court must afford an opportunity to be heard and may receive evidence, and may:

adopt or affirm; modify; wholly or partly reject or reverse; or resubmit to the master with instructions.”⁹ Pursuant to subsections 53(g)(3) & (4), the Court reviews de novo all objections to the findings of fact and conclusion of law made or recommended by the Special Master.¹⁰ For procedural matters, the Court may set aside a master’s ruling only for an abuse of discretion.¹¹

Before the Court can determine the standard it should use to review the parties’ objections to the Special Master’s report, it must first ascertain whether the Special Master’s recommended fee and expense apportionment is a finding of fact, conclusion of law, or procedural matter. After this determination is made, Rule 53(g) then provides the appropriate standard of review, either de novo or abuse of discretion, to review the parties’ objections.

The Court holds that the Special Master’s determination that “the circumstances which necessitated the majority of the time spent on this matter are directly attributable to defendants’ representations and lack of cooperation prior to the trip to Florida and delays since returning from Florida” is a finding of fact. The Court further holds that the Special Master’s specific recommendation on the allocation of payment of his fees and expenses is a mixed finding of fact and conclusion of law. As such, the Court reviews the parties’ objections to the Special Master’s recommended allocation of his fees and expenses under a de novo standard of review.

Applying a de novo standard of review, the court owes no deference to the Special Master’s recommendation and is free to independently determine how the Special Master’s fees and expenses should

⁹Fed. R. Civ. P. 53(g)(1).

¹⁰Fed. R. Civ. P. 53(g)(3)- (4).

¹¹Fed. R. Civ. P. 53(g)(5).

be apportioned. Rule 53(h)(3) governs the allocation of a master's compensation. It sets forth certain factors that the court must consider in allocating the payment of the master's compensation among the parties. Specifically, it provides that "[t]he court must allocate payment of the master's compensation among the parties after considering the nature and amount of the controversy, the means of the parties, and the extent to which any party is more responsible than other parties for the reference to a master."¹² The advisory committee note to the 2003 amendments to Rule 53 also indicates that the court may properly charge all or a major portion of the special master's fees to the "party whose unreasonable behavior has occasioned the need to appoint a master."¹³

After a careful review of the Special Master's suggested apportionment of his fees and expenses, the Court agrees with the Special Master's recommendation that his expenses be apportioned 50% to be paid by Plaintiff and 50% to be paid by Defendants. The Court also generally agrees with the Special Master's recommendation that Defendants should pay a greater percentage of his fees than Plaintiff. The Court, however, rejects the specific fee allocation percentages proposed by the Special Master (20% Plaintiff, 80% Defendants), as well as the fee percentages proposed by Defendants (split 50-50) and Plaintiff (100% paid by Defendants). Instead, the Court determines that the more appropriate apportionment is that the Special Master's fees be apportioned 30% to be paid by Plaintiff and 70% to be paid by Defendants. While the Court agrees with the Special Master's finding that "[t]he circumstances which necessitated the majority of the time spent on this matter are directly attributable to defendants'

¹²Fed. R. Civ. P. 53(h)(3).

¹³Fed. R. Civ. P. 53(h) advisory committee note (2003).

representations and lack of cooperation prior to the trip to Florida,” the Court determines that Plaintiff should bear 30% of the financial responsibility for the protracted and highly contentious discovery dispute, which resulted in the reference to the Special Master. In addition, the Court finds that a series of *mutual* misunderstandings and miscommunications between the parties exacerbated the amount of work and time spent by the Special Master in this case.

As required by Rule 53(h)(3), the Court has considered the nature and amount of the controversy, the means of the parties, and the extent to which any one party is more responsible than others for the reference to the special master. As the Court has stated in prior Orders, the Court starts from the premise that the Special Master’s fees should be split equally between Plaintiff and Defendants. However, considering the circumstances in this case, including the specific recommendations of the Special Master, the Court determines that Plaintiff should be responsible for 30% of the Special Master’s fees and Defendants should be responsible for 70% of the Special Master fees. The Court accepts the Special Master’s recommendation that his expenses be apportioned 50% to be paid by Plaintiff and 50% to be paid by Defendants. Accordingly, the Special Master’s fees and expenses incurred in this matter are apportioned between the parties as follows:

Plaintiff:

| | |
|-----------|--|
| Fees: | \$ 15,642 (30%) |
| Expenses: | \$ 940 (50%) |
| Less | \$ 5,000 (paid per July 1, 2004 Order) |
| Total: | \$ 11,582 |

Defendants:

Fees: \$ 36,498 (70%)
Expenses: \$ 940 (50%)
Less \$ 5,000 (paid per July 1, 2004 Order)
Total: \$ 32,438

IT IS THEREFORE ORDERED that Plaintiff's Motion for An Order Compelling Discovery (doc. 89) is granted in part and denied in part.

IT IS FURTHER ORDERED that the Special Master's fees in the amount of **\$52,140** and expenses in the amount of **\$1,880** are deemed reasonable and appropriate.

IT IS FURTHER ORDERED that the remaining unpaid Special Master's fees and expenses be apportioned as follows: **\$11,582** to be paid by Plaintiff and **\$32,438** to be paid by Defendants. The parties shall tender payment to the Special Master by **October 18, 2004**.

IT IS FURTHER ORDERED that the Special Master appointed by the Court is dismissed and relieved of any further duty in this case.

IT IS FURTHER ORDERED that all other requests for relief asserted in the parties' respective objections to the Amended Special Master's Report are denied.

IT IS SO ORDERED.

Dated in Kansas City, Kansas on this 29th day of September, 2004.

David J. Waxse
United States Magistrate Judge

cc: All counsel and

Special Master
D.A.N. Chase
4400 College Blvd, Ste. 130
Overland Park, KS 66211

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF KANSAS

| | | |
|----------------------------|---|-------------------------|
| EVOLUTION, INC., |) | |
| |) | |
| Plaintiff, |) | |
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| v. |) | Case No. 01-2409-CM-DJW |
| |) | |
| THE SUNTRUST BANK, et al., |) | |
| |) | |
| Defendants. |) | |

SPECIAL MASTER'S REPORT

Pursuant to the Court's Order of May 26, 2004 (doc. 198), the Special Master submits the following Report and Recommendations relating to the technical discovery issues in this case.

This action was filed on August 15, 2001 and includes, *inter alia*, claims by plaintiff Evolution, Inc., a software developer, against the defendants for breach of software license agreements relating to the processing, tracking and reporting of the premium finance business of defendant Premium Assignment Corporation. On October 24, 2002, plaintiff Evolution, Inc. served upon defendants SunTrust Bank and Premium Assignment Corporation, Plaintiff's Second Request for Production of Documents and Things.

On April 17, 2003 defendants served upon plaintiff their response, and documents were produced.

Dissatisfied with the defendants' production, plaintiff attempted to clarify and resolve any discrepancies. On May 27, 2003, after a series of letters between counsel for the

parties, plaintiff filed a Motion for an Order Compelling Discovery (“motion to compel”) (doc. 89).

On February 11, 2004, the Court appointed a Special Master to help resolve the technical discovery issues relating to the motion to compel (Order Appointing Special Master, doc. 155). The nature of these issues is set forth in the report hereinbelow.

Report

1. Lack of meaningful communication between the parties. As is often the case in discovery controversies, communication between counsel for the respective parties has been contentious with the purpose of the communication often being lost in an effort to avoid admissions and to gain an advantage.

2. Lack of cooperation. Furthermore, in an apparent effort to avoid admissions, defendants have consistently failed to cooperate with plaintiff to resolve the discovery issues. Defendants’ interference with normal discovery is the root cause in the delays and costs in resolving the discovery issues presented in the motion to compel.

Defendants steadfastly refused to identify the licensors of the third-party controls embodied in the software in dispute, in the manner requested by the Special Master, which defendants claimed were subject to restricted distribution under the associated license agreements. Rather than identify all third party software licenses defendants contend would be violated by providing such information to the Special Master, as ordered by the Court (doc. 198, paragraph 1), defendants argued that “the information regarding licensors for the third party tools

is set forth in the discovery supplementation that Mr. Kernell¹ confirmed he already had in his possession.” June 17, 2004 letter (Exhibit A) from Bryan G. Harrison (defendants’ counsel) to D. A. N. Chase (Special Master). See also June 11, 2004 letter (Exhibit B). On two separate occasions the Special Master communicated to defendants’ counsel that neither the Special Master nor Mr. Kernell had this information. The Special Master had to request the information three times (Exhibits C-E) before defendants fully complied as requested. Finally, on June 21, 2004 (Exhibit F), nearly three weeks after the date of June 4 set by the Court, defendants produced the third party information in the manner requested by the Special Master and the plaintiff and as ordered by the Court to permit the Special Master to obtain the associated license agreements for review.

3. Representations of the Defendants. Defendants have made representations to the plaintiff, the Special Master and to the Court in order to avoid discovery as requested by the plaintiff.

a) Copying of Third-party Software Controls. In defendants’ initial refusal to allow copying of certain third party controls, defendants objected that “Defendants cannot and will not breach their licenses with third parties and illegally distribute third-party control software to Plaintiff.” March 17, 2004 letter to Special Master, page 2, third

¹ James J. Kernell, technical advisor to the Special Master.

paragraph (Exhibit G). Defendants have clung to this argument repeating it time and time again in letters to plaintiff's counsel, to the Special Master and to the Court.²

At a hearing on May 6, 2004 before Judge Waxse, defendants' counsel objected to the Special Master's recommendation to copy the third party controls necessary to run the software at issue claiming that defendants would violate their license agreements and would be liable for copyright infringement. Defendants filed a memorandum with the Court (doc. 174) in which defendants argued that such copying of the third party controls would violate their license agreements and the Copyright Act. Again during a telephone status conference on May 26, counsel for defendants made these same arguments.

Defendants' refusal to allow copying of these third party controls was the basis of the Special Master's cancellation of the trip to Florida in early May 2004. Mr. Kernell subsequently obtained copies of the license agreements from the licensors cited by the defendants, each of which unequivocally and plainly permits copying and distribution of the identified third party controls royalty-free. See June 22, 2004 letter from Special Master and June 23 email, and accompanying license agreements (Exhibit I). When advised of this,

² "As stated previously, Defendants are not obligated to – and cannot under their license agreements – distribute third-party software to Plaintiff." March 17, 2004 letter to Special Master, page 4, sixth paragraph (Exhibit G). "Defendants do not believe any of the license agreements for these controls allow Defendants to copy and distribute such controls to unaffiliated third parties." June 4, 2004 letter to Special Master, opening paragraph (Exhibit H). "And, finally, we stated in our letter of June 4 that Defendants are not authorized to copy and redistribute any of the controls at issue to unaffiliated third parties." June 11, 2004 letter to Special Master, penultimate paragraph (Exhibit B). "Defendants confirm again that they are not authorized to distribute any of the software/controls identified to unaffiliated third parties." June 21, 2004 letter to Special Master, paragraph (3), Exhibit F.

defendants withdrew their objection to copying the third party controls.³ Defendants' position was never supported and served to obstruct discovery.

b) Contents of Media. In the March 17, 2004 letter (Exhibit G) to the Special Master, Mr. Harrison stated that "Defendants confirm that the most recent version of ASDNorth has been produced. The PF32Reports.vbp is contained within SP 11678." Page 2, last paragraph. Mr. Harrison continued, "It is puzzling, at best, that Plaintiff would not recognize this file, as it is the first file that must be opened to begin working with the ASDNorth source." After obtaining the software media from the plaintiff which was produced by defendants, the Special Master confirmed that the PF32Reports.vbp file was in fact not on the CD identified by defendants. Furthermore, Mr. Harrison confirmed this in a telephone conference with Mr. Kernell and in an email dated April 14, 2004 (Exhibit K), when Mr. Harrison actually checked the CD.

c) Damaged Files. In a letter of March 5, 2004 from plaintiff's counsel (Mr. Lance Kinzer) to the Special Master and defendants' counsel, a number of files produced by defendants were identified that were unreadable.⁴ In response, Mr. Harrison wrote "Contrary to Plaintiff's representation, the files listed in Exhibit H to its letter are not from CDs or diskettes produced by Defendants. These files are from the

³ "Based upon the legal opinion you've [Special Master] rendered, SunTrust will allow the copying of the identified third party controls and software." June 23, 2004 email message from Bryan Harrison (Exhibit J).

⁴ Mr. Kinzer's letter of March 5 is twelve pages in length plus Exhibits A-I which are voluminous. For brevity, the letter and only the first page of a quarter-inch thick listing of damaged files (Exhibit H to the letter) are attached hereto as Exhibit L. Regarding damaged

backup tape Defendants produced. It appears that Plaintiff's technical issues in restoring these backup files are the likely cause of the problems." March 17, 2004 letter, page 4, fourth paragraph (Exhibit G). Subsequently at defendant SunTrust's facility in Florida, however, defendants identified the media containing the files as SP010955 and SP01957, both of which are CDs, not a tape. Many of the files on the CDs were in fact unreadable.

d) Production Instructions. Many of the "technical difficulties" experienced by plaintiff in restoring and loading the software at issue were due to defendants' refusal to provide adequate instructions necessary to recreate the development and production environment used by defendants, and their refusal to allow copying of the third party software/controls. In defendants' letter of March 17, 2004 to the Special Master, Mr. Harrison objected to the request, stating "Defendants will not undertake to recreate the development and production environments for Plaintiff's software last in use several years ago, document in detail such environments for Plaintiff, and provide such information in response to a request for production. Such an undertaking would be, at best, a Herculean task at this point." Page 4, penultimate paragraph, Exhibit G.

First, plaintiff's request was reasonable and necessary to reproduce defendants' development and production environments. It is impossible to take the software at issue, copy it to another computer and run it. The third-party controls necessary for the software to operate must be identified and loaded into the proper

files, see paragraph 12 on page 10.

directories and the proper registry entries must be made in the operating system. Next, the development and production environments should have been preserved from the time this action was initiated, which was “several years ago.” Finally, the development and production environment was set up at defendant SunTrust’s facility in Florida in less than two days during Mr. Kernell’s visit, on a lap top computer as provided in the May 26 Order, paragraph 3 (doc. 198). Defendants provided an installation disk to install most of the necessary files onto the lap top computer. The vast majority of the time in Florida was spent merely copying the information onto the portable hard drives.

4. Suntrust in Florida. The individuals at SunTrust and counsel were helpful and cooperative during Mr. Kernell’s visit to the Florida facility July 13-15, 2004. Mr. Jack Bush worked all day and through the night to copy the data onto the portable hard drives and answer technical questions. Counsel for defendants (Mr. Harrison) spent long hours helping Mr. Bush to resolve technical issues and get the information transferred. Mr. Michael Baddoo answered all technical questions related to the development environment and helped ensure that the files were transferred to the portable hard drives, which have now been delivered to plaintiff’s counsel. Other technical personnel from SunTrust provided support with complete cooperation. Had defendants provided this level of cooperation over a year ago, plaintiff’s motion to compel and the Court’s appointment of the Special Master would not have been necessary.

Recommendations

The duties of the Special Master set out in the Court's May 26, 2004 order have been substantially completed. The outstanding items are as follows (and have been requested):

- a. Obtaining passwords and permissions from defendants for SourceSafe and Access database files; and
- b. Obtaining the Crystal Reports controls and installation instructions from defendants necessary for operation of defendants' ASDNorth program which is used to extract data from the production database that contains customer information.

Assuming that defendants comply with these requests, no further action by the Special Master should be necessary.

The circumstances which necessitated the majority of the time spent on this matter are directly attributable to defendants' representations and lack of cooperation prior to the trip to Florida. Accordingly, the Special Master recommends that the fees and expenses of the Special Master as itemized in the attached statement (Exhibit M), be apportioned as follows:

| | | |
|------------|-----------|--|
| Plaintiff: | Fees: | \$ 9,322.50 (20%) |
| | Expenses: | \$ 923.46 (50%) |
| | Less | <u>\$ 5,000.00</u> (paid per July 1 Order) |
| | Total: | \$ 5,245.96 |

| | | |
|-------------|-----------|--|
| Defendants: | Fees: | \$ 37,290.00 (80%) |
| | Expenses: | \$ 923.46 (50%) |
| | Less | <u>\$ 5,000.00</u> (paid per July 1 Order) |
| | Total: | \$ 33,213.46 |

Dated August 3, 2004.

/s/ D. A. N. Chase
Special Master

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing Special Master's Report have been served on counsel for the plaintiff, Lance Y. Kinzer, Esq. and counsel for the defendants, Russell S. Jones, Jr. and Bryan G. Harrison, by deposit in the United States Mail at Overland Park, Kansas, in a sealed envelope with first class postage thereon fully prepaid, this 3rd day of August, 2004 addressed to:

Lance Y. Kinzer, Esq.
Schlagel, Damore & Gordon, LLC
201 East Loula Street, Suite 200
P. O. Box 10
Olathe, Kansas 66051-0010

Russell S. Jones, Jr.
Shughart Thomson & Kilroy, PC
120 West 12th Street, 15th Floor
Kansas City, Missouri 64105

Bryan G. Harrison (by Federal Express)
Morris, Manning & Martin LLP
1600 Atlanta Financial Center
3343 Peachtree Road N.E.
Atlanta, Georgia 30326-1044

/s/ D. A. N. Chase

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF KANSAS

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| EVOLUTION, INC., |) | |
| |) | |
| Plaintiff, |) | |
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| v. |) | Case No. 01-2409-CM-DJW |
| |) | |
| THE SUNTRUST BANK, et al., |) | |
| |) | |
| Defendants. |) | |

AMENDED SPECIAL MASTER'S REPORT

Pursuant to the Court's order of May 26, 2004 (doc. 198), and the Court's order of September 2 (doc. 219), the Special Master submits the following Amended Report and Recommendations relating to the technical discovery issues in this case. Exhibits A-M are as attached to the Special Master's Report of August 3, 2004 (doc. 215) and are thus not attached to this report. Only Exhibit N is attached hereto.

This action was filed on August 15, 2001 and includes, *inter alia*, claims by plaintiff Evolution, Inc., a software developer, against the defendants for breach of software license agreements relating to the processing, tracking and reporting of the premium finance business of defendant Premium Assignment Corporation. On October 24, 2002, plaintiff Evolution, Inc. served upon defendants SunTrust Bank and Premium Assignment Corporation, Plaintiff's Second Request for Production of Documents and Things.

On April 17, 2003 defendants served upon plaintiff their response, and documents were produced.

Dissatisfied with the defendants' production, plaintiff attempted to clarify and resolve any discrepancies. On May 27, 2003, after a series of letters between counsel for the parties, plaintiff filed a Motion for an Order Compelling Discovery ("motion to compel") (doc. 89).

On February 11, 2004, the Court appointed a Special Master to help resolve the technical discovery issues relating to the motion to compel (Order Appointing Special Master, doc. 155). The nature of these issues is set forth in the report hereinbelow.

Report

1. Lack of meaningful communication between the parties. As is often the case in discovery controversies, communication between counsel for the respective parties has been contentious with the purpose of the communication often being lost in an effort to avoid admissions and/or to gain an advantage.

2. Lack of cooperation. Furthermore, in an apparent effort to avoid admissions, defendants have consistently failed to cooperate with plaintiff to resolve the discovery issues. Defendants' interference with normal discovery is the root cause in the delays and costs in resolving the discovery issues presented in the motion to compel.

Defendants steadfastly refused to identify the licensors of the third-party controls embodied in the software in dispute, in the manner requested by the Special Master, which defendants claimed were subject to restricted distribution under the associated license agreements. Although defendants have repeatedly claimed that they provided this information in

the manner requested by the Special Master and as ordered by the Court on May 6 and May 26, this is simply not true. The Special Master repeatedly requested the information until it was finally produced by defendants. At no time did the Special Master or his technical advisor indicate to defendants' counsel that they were in possession of such information. Defendants claim that the information was provided "[i]n early June 2004" (doc. 216, Defendants' Response to Special Master's Report, p. 2, ¶ 4). However, the information was not provided until June 21, further supporting the Special Master's conclusions of defendants' lack of cooperation. Moreover, defendants' request for indemnification from the Special Master for providing the third party control software was most inappropriate (See Defendants' Response, p. 4, fn. 1).

Rather than identify all third party software licenses defendants contend would be violated by providing such information to the Special Master, as ordered by the Court (doc. 167, ¶ 2 and doc. 198, ¶ 1), defendants argued that "the information regarding licensors for the third party tools is set forth in the discovery supplementation that Mr. Kernell¹ confirmed he already had in his possession." June 17, 2004 letter (Exhibit A) from Bryan G. Harrison (defendants' counsel) to D. A. N. Chase (Special Master). See also June 11, 2004 letter (Exhibit B). On two separate occasions the Special Master communicated to defendants' counsel that neither the Special Master nor Mr. Kernell had this information. The Special Master had to request the information three times (Exhibits C-E) before defendants fully complied as requested. Finally, on June 21, 2004 (Exhibit F), more than six weeks after the original date of May 7 set by the

¹ James J. Kernell, technical advisor to the Special Master.

Court and nearly three weeks after the date of June 4 set by the Court, defendants produced the third party information in the manner requested by the Special Master and the plaintiff and as ordered by the Court, to permit the Special Master to obtain the associated license agreements for review.

3. Representations of the Defendants. Defendants have made representations to the plaintiff, the Special Master and to the Court in order to avoid discovery as requested by the plaintiff permitted under Fed. R. Civ. P. 34 and as ordered by the Court.

a) Copying of Third-party Software Controls. In defendants' initial refusal to allow copying of certain third party controls, defendants objected that "Defendants cannot and will not breach their licenses with third parties and illegally distribute third-party control software to Plaintiff." March 17, 2004 letter to Special Master, page 2, third paragraph (Exhibit G). Defendants have clung to this argument repeating it time and time again in letters to plaintiff's counsel, to the Special Master and to the Court.²

At a hearing on May 6, 2004 before Judge Waxse, defendants' counsel objected to the Special Master's recommendation to copy the third party controls necessary to run the

² "As stated previously, Defendants are not obligated to – and cannot under their license agreements – distribute third-party software to Plaintiff." March 17, 2004 letter to Special Master, page 4, sixth paragraph (Exhibit G). "Defendants do not believe any of the license agreements for these controls allow Defendants to copy and distribute such controls to unaffiliated third parties." June 4, 2004 letter to Special Master, opening paragraph (Exhibit H). "And, finally, we stated in our letter of June 4 that Defendants are not authorized to copy and redistribute any of the controls at issue to unaffiliated third parties." June 11, 2004 letter to Special Master, penultimate paragraph (Exhibit B). "Defendants confirm again that they are not authorized to distribute any of the software/controls identified to unaffiliated third parties." June 21, 2004 letter to Special Master, paragraph (3), Exhibit F.

software at issue claiming that defendants would violate their license agreements and would be liable for copyright infringement. Defendants filed a memorandum with the Court (doc. 174) in which defendants argued that such copying of the third party controls would violate their license agreements and the Copyright Act. Again during a telephone status conference on May 26, counsel for defendants made these same arguments.

Defendants' refusal to allow copying of these third party controls was the basis of the Special Master's cancellation of the trip to Florida in early May 2004. More than six weeks later, Mr. Kernell obtained copies of the license agreements from the licensors finally identified by the defendants, each of which unequivocally and plainly permits copying and distribution of the identified third party controls royalty-free. See June 22, 2004 letter from Special Master and June 23 email, and accompanying full license agreements (Exhibit I). When advised of this, defendants withdrew their objection to copying the third party controls.³ Defendants' position was never supported in fact or law and served to obstruct discovery. It is important to note that in Defendants' Response, defendants only cite to irrelevant portions of the Microsoft EULA ignoring the plain language of the relevant clauses of this and all of the other license agreements. For the convenience of the Court, the relevant portions of the license agreements are as follows:

BeCubed Software: "Finally, you are permitted by BeCubed Software to reproduce and distribute executable files created using the software controls (DLL, VBX and OCX) as well as any of the controls necessary for the operation of the executable files

³ "Based upon the legal opinion you've [Special Master] rendered, SunTrust will allow the copying of the identified third party controls and software." June 23, 2004 email message from Bryan Harrison (Exhibit J).

without royalty to BeCubed Software."

Crescent: "You can distribute any application you create using QuickPak routines, as long as you distribute the application only as an executable. You may also distribute the QuickPak dynamic link libraries (.DLL, .OCX)."

Desaware: "You have a royalty-free right to incorporate any of the sample code provided into your own applications with the stipulation that you agree that Desaware, Inc. has no warranty, obligation or liability, real or implied, for its performance.

SpyWorks OCX: You may include with your program a copy of the files dwsbc??.ocx, dwcbk??.ocs, dwshk??.ocx, dweasy??.ocs, dwspydll.dll, dwspy32.dll, dwspy5.dll, dwaxext.dll and dwspyvb.dll (the runtime libraries, where ?? indicates 16 or 32). You may also distribute DLL files created using the dwexutil.exe utility program. You may not modify the above listed files in any way. . . .

SpyWorks VBX: You may include with your program a copy of the files SBC.VBX, CBK.VBX, SBCKBD.VBX, SBCHOOK.VBX, SBCEASY.VBX, DWTIME.VBX and dwspydll.dll (the runtime libraries)."

Farpoint: "You must include the following files, based on your development environment. . . . To redistribute the Spread 32-bit OCX control, include the following files:

SS32X25.OCX Spread 32-bit OCX control"

Infragistics-Sheridan: "Client-side elements are licensed ROYALTY FREE. You pay to use them in design time. You do not pay additional royalties when you create an executable and distribute the component with that executable.

V. REDISTRIBUTABLE elements

B. In addition to the license and rights granted in Section I and II, Infragistics grants you a nonexclusive, royalty-free right to reproduce and distribute the object code version of those portions of the SOFTWARE designated in the SOFTWARE as (i) those portions of the SOFTWARE which are identified in the documentation as the VBX ("VBX") and/or OCX ("OCX") Controls and/or DLL Controls; (ii) those portions of the SOFTWARE which are identified in the documentation as REDISTRIBUTABLE DLLs ("DLLs") (collectively the "REDISTRIBUTABLES");"

Microsoft: "2.2 Redistributable Code-Standard. Microsoft grants you a nonexclusive, royalty-free right to reproduce and distribute the object code form (sic) any portion of the SOFTWARE PRODUCT listed in REDIST.TXT ("Redistributable Code")."

Seagate-Crystal Reports: "3. RUNTIME SOFTWARE. The software files listed in the software file

"runtime.hlp," provided on your Software media, individually, collectively or in any combination, constitute Runtime Software. Unless this is a "Not for Resale" or "Evaluation" copy, Seagate grants you a Limited Runtime License to reproduce and distribute exact copies of the Runtime Software, and to modify, reproduce and distribute the sample applications made from the original Software media, if and only if all of the following conditions are satisfied: (a) you distribute copies of Runtime Software solely for the purpose of executing specific-purpose application programs written using an authorized copy of the Software (b) you remain solely responsible for support, service, upgrades, and technical or other assistance, required or requested by anyone receiving such Runtime Software copies or sample applications (c) you do not use the name, logo, or trademark of Seagate, or the Software, without written permission from Seagate (d) you do not alter, disassemble, decompile, translate, adapt or reverse-engineer the Runtime Software (e) Seagate makes no warranty other than the limited warranty provided to you in this license agreement and (f) you will defend, indemnify and hold Seagate harmless against any claims or liabilities arising out of the use, reproduction or distribution of Runtime Software copies and/or sample applications."

b) Contents of Media. In the March 17, 2004 letter (Exhibit G) to the Special Master, Mr. Harrison stated that "Defendants confirm that the most recent version of ASDNorth has been produced. The PF32Reports.vbp is contained within SP 11678." Page 2, last paragraph. Mr. Harrison continued, "It is puzzling, at best, that Plaintiff would not recognize this file, as it is the first file that must be opened to begin working with the ASDNorth source." After obtaining the software media from the plaintiff which was produced by defendants, the Special Master confirmed that the PF32Reports.vbp file was in fact not on the CD identified by defendants. Furthermore, Mr. Harrison confirmed this in a telephone conference with Mr. Kernell and in an email dated April 14, 2004 (Exhibit K), when Mr. Harrison actually checked the CD.

c) Damaged Files. In a letter of March 5, 2004 from plaintiff's counsel (Mr. Lance Kinzer) to the Special Master and defendants' counsel, a number of files produced by defendants were identified that were unreadable.⁴ In response, Mr. Harrison wrote "Contrary to Plaintiff's representation, the files listed in Exhibit H to its letter are not from CDs or diskettes produced by Defendants. These files are from the backup tape Defendants produced. It appears that Plaintiff's technical issues in restoring these backup files are the likely cause of the problems." March 17, 2004 letter, page 4, fourth paragraph (Exhibit G). Subsequently at defendant SunTrust's facility in Florida, however, defendants identified the media containing the files as SP010955 and SP01957, both of which are CDs, not a tape. Many of the files on the CDs were in fact unreadable.

d) Production Instructions. Many of the "technical difficulties" experienced by plaintiff in restoring and loading the software at issue were due to defendants' refusal to provide adequate instructions necessary to recreate the development and production environment used by defendants, and their refusal to allow copying of the third party software/controls. Defendants attempt to avoid the fact that it is the development and production environments, as modified by defendants that is at issue and is the basis of the discovery request, not plaintiff's development environment.

⁴ Mr. Kinzer's letter of March 5 is twelve pages in length plus Exhibits A-I which are voluminous. For brevity, the letter and only the first page of a quarter-inch thick listing of damaged files (Exhibit H to the letter) are attached hereto as Exhibit L. Regarding damaged files, see paragraph 12 on page 10.

In defendants' letter of March 17, 2004 to the Special Master, Mr. Harrison objected to the request, stating "Defendants will not undertake to recreate the development and production environments for Plaintiff's software last in use several years ago, document in detail such environments for Plaintiff, and provide such information in response to a request for production. Such an undertaking would be, at best, a Herculean task at this point." Page 4, penultimate paragraph, Exhibit G.

First, plaintiff's request was reasonable and necessary to reproduce defendants' development and production environments and within the scope of the Fed. R. Civ. P. 34. It is impossible to take the software at issue, copy it to another computer and run it. The third-party controls necessary for the software to operate must be identified and loaded into the proper directories and the proper registry entries must be made in the operating system. It is these specific controls, file names, versions and file locations that defendants refused to provide. Next, the development and production environments should have been preserved from the time this action was initiated, which was "several years ago." Finally, the development and production environment was set up at defendant SunTrust's facility in Florida in less than two days during Mr. Kernell's visit, on a lap top computer as provided in the May 26 Order, paragraph 3 (doc. 198). Defendants provided an installation disk to install most of the necessary files onto the lap top computer. The vast majority of the time in Florida was spent merely copying the information onto the portable hard drives.

e. Defendants' Responsiveness.

In the status conference on September 2, counsel for defendants stated his frustration with the process undertaken by the Special Master and claimed to have immediately responded to requests by the Special Master. However, and as a further example of defendants' lack of cooperation and representations to the Court, on July 22, 2004 the advisor to the Special Master requested that defendants provide the controls necessary to run Crystal Reports, which should have been provided in Florida, but were not. It was not until August 27, nearly five weeks later, that the controls were made available to the Special Master.

4. Suntrust in Florida. The individuals at SunTrust and counsel were helpful and cooperative during Mr. Kernell's visit to the Florida facility July 13-15, 2004. Mr. Jack Bush worked all day and through the night to copy the data onto the portable hard drives and answer technical questions. Counsel for defendants (Mr. Harrison) spent long hours helping Mr. Bush to resolve technical issues and get the information transferred. Mr. Michael Baddoo answered all technical questions related to the development environment and helped ensure that the files were transferred to the portable hard drives, which have now been delivered to plaintiff's counsel. Other technical personnel from SunTrust provided support with complete cooperation. Had defendants provided this level of cooperation over a year ago, plaintiff's motion to compel and the Court's appointment of the Special Master would not have been necessary.

Status of August 3, 2004 Recommendations

The duties of the Special Master set out in the Court's May 26, 2004 order have been substantially completed. The outstanding items were as follows:

- a. Obtaining passwords and permissions from defendants for SourceSafe and Access database files;

It appears that all known passwords and permissions have been provided by SunTrust.

- b. Obtaining the Crystal Reports controls and installation instructions from defendants necessary for operation of defendants' ASDNorth program which is used to extract data from the production database that contains customer information.

The Crystal Reports controls were provided by SunTrust on August 27.

Since September 2, in a series of telephone conferences between the technical personnel of Evolution and SunTrust, many of the technical issues have been resolved or identified and dealt with accordingly. Mr. Bush and Mr. Badoo of SunTrust provided technical answers to the issues identified by Evolution in a professional, courteous and expeditious manner. Accordingly, it appears that no further action by the Special Master should be necessary.

Conclusion

It is still the opinion of the Special Master that the circumstances which necessitated the majority of the time spent on this matter are directly attributable to defendants' representations and lack of cooperation prior to the trip to Florida and delays since returning from Florida. Although defendants claim that the Special Master's Report is biased, the report is strictly based on the facts and the behavior of the parties. Accordingly, the Special Master recommends that the fees and expenses of the Special Master as itemized in the attached updated statement (Exhibit N), be apportioned as follows:

| | | |
|-------------|-----------|--|
| Plaintiff: | Fees: | \$ 10,428.00 (20%) |
| | Expenses: | \$ 939.86 (50%) |
| | Less | <u>\$ 5,000.00</u> (paid per July 1 Order) |
| | Total: | \$ 6,367.86 |
| Defendants: | Fees: | \$ 41,712.00 (80%) |
| | Expenses: | \$ 939.86 (50%) |
| | Less | <u>\$ 5,000.00</u> (paid per July 1 Order) |
| | Total: | \$ 37,651.86 |

Dated September 17, 2004.

/s/ D. A. N. Chase
Special Master

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing Amended Special Master's Report have been served on counsel for the plaintiff, Lance Y. Kinzer, Esq. and counsel for the defendants, Russell S. Jones, Jr. and Bryan G. Harrison, by electronic mail administered by the CM/ECF system.

/s/ D. A. N. Chase